CYTODYN INC
Form 424B3
April 30, 2014
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**Filed Pursuant to Rule 424(b)(3)**
**Registration No. 333-192361**

**PROSPECTUS SUPPLEMENT NO. 1**

**To Prospectus dated February 5, 2014**

# CYTODYN INC.

**39,483,025 Shares of Common Stock**

This prospectus supplement no. 1 supplements the prospectus dated February 5, 2014, relating to the offering and resale by the selling stockholders identified in the prospectus of up to 39,483,025 shares of our common stock without par value. Of the 39,483,025 shares of common stock, 22,465,620 shares are presently outstanding, 11,234,241 additional shares may be issued upon exercise, at an exercise price of $0.75 per share, of warrants issued in connection with the private placements, a total of 923,072 shares may be issued upon exercise, at an exercise price of $0.50 per share, of warrants issued in a privately placed bridge financing transaction, and 4,860,092 shares may be issued upon exercise, at an exercise price of $0.75 per share, of warrants issued to our placement agent.

This prospectus supplement incorporates into our prospectus the information contained in our attached quarterly report on Form 10-Q, which was filed with the Securities and Exchange Commission on April 11, 2014.

You should read this prospectus supplement in conjunction with the prospectus, including any supplements and amendments thereto. This prospectus supplement is qualified by reference to the prospectus except to the extent that the information in the prospectus supplement supersedes the information contained in the prospectus.

This prospectus supplement is not complete without, and may not be delivered or utilized except in connection with, the prospectus, including any supplements and amendments thereto.

**Investment in our common stock involves risks. See Risk Factors beginning on page 4 of the prospectus.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement. Any representation to the contrary is a criminal offense.**

**The date of this prospectus supplement is April 30, 2014**

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

# FORM 10-Q

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended February 28, 2014**

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1933**

**For the transition period from _____ to _____**

**Commission File Number: 000-49908**

**CYTODYN INC.**

**(Exact name of registrant as specified in its charter)**

| **Colorado** | **75-3056237** |
|---|---|

| | |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer or Identification No.)** |
| **1111 Main Street, Suite 660** | |
| **Vancouver, Washington** | **98660** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(Registrant s telephone number, including area code) (360) 980-8524**

**(Former name, former address and former fiscal year, if changed since last report)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large Accelerated Filer ¨ | Accelerated Filer ¨ |
| Non- accelerated Filer ¨ | Smaller Reporting Company x |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes ¨ No x

On March 31, 2014 there were 55,568,381 shares outstanding of the registrant s no par value common stock.

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**PART I**

**Item 1. Financial Statements.**

CytoDyn Inc.

(A Development Stage Company)

Consolidated Balance Sheets

| | February 28, 2014 (unaudited) | May 31, 2013 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 7,395,349 | $ 603,681 |
| Prepaid expenses | 487,763 | 139,849 |
| Deferred offering costs | 68,292 | 96,930 |
| Total current assets | 7,951,404 | 840,460 |
| Furniture and equipment, net | 10,027 | |
| Intangibles, net | 3,054,739 | 3,317,239 |
| | $ 11,016,170 | $ 4,157,699 |
| **Liabilities and Shareholders Equity (Deficit)** | | |
| Current liabilities: | | |
| Accounts payable | $ 738,130 | $ 1,111,285 |
| Accrued liabilities | 50,474 | 321,884 |
| Accrued salaries and severance | 234,442 | 364,698 |
| Accrued interest payable | 118,497 | 56,884 |
| Indebtedness to related parties | 500,000 | 509,000 |
| Convertible notes payable, net | 248,423 | 328,347 |
| Stock rescission liability | 378,000 | 536,500 |
| Total current liabilities | 2,267,966 | 3,228,598 |
| Long-term liabilities | | |
| Convertible notes payable, net | 1,982,808 | 1,153,017 |
| Total liabilities | 4,250,774 | 4,381,615 |
| Shareholders equity (deficit): | | |
| Series B convertible preferred stock, no par value; 400,000 shares authorized, 95,100 shares issued and outstanding at February 28, 2014 and May 31, 2013, respectively | 266,251 | 274,091 |
| | 30,432,560 | 16,244,673 |

| | | |
|---|---|---|
| Common stock, no par value; 100,000,000 shares authorized, 55,568,381 and 30,798,150 outstanding at February 28, 2014 and May 31, 2013, respectively; 55,768,381 and 30,998,150 issued at February 28, 2014 and May 31, 2013, respectively | | |
| Common stock payable | 28,770 | 117,778 |
| Additional paid-in capital | 19,701,295 | 17,523,796 |
| Common and preferred stock subject to rescission | (378,000) | (536,500) |
| Treasury stock, at cost, 200,000 shares held at February 28, 2014 and May 31, 2013 | (100,000) | (100,000) |
| Additional paid-in capital treasury stock | 252,880 | 255,065 |
| Accumulated deficit on unrelated dormant operations | (1,601,912) | (1,601,912) |
| Accumulated deficit during development stage | (41,836,448) | (32,400,907) |
| Total shareholders equity (deficit) | 6,765,396 | (223,916) |
| | $ 11,016,170 | $ 4,157,699 |

See accompanying notes to consolidated financial statements.

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CytoDyn Inc.

(A Development Stage Company)

Consolidated Statements of Operations

(Unaudited)

| | Three Months Ended February 28, | | Nine Months Ended February 28, | | October 28, 2003 through February 28, |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 |
| Operating expenses: | | | | | |
| General and administrative | $ 915,970 | $ 1,352,515 | $ 2,255,448 | $ 5,120,807 | $ 24,922,205 |
| Amortization & depreciation | 88,072 | 3,109 | 263,692 | 3,934 | 669,238 |
| Research and development | 1,655,914 | 33,370 | 2,387,866 | 254,825 | 5,767,199 |
| Legal fees | 215,611 | 233,744 | 570,425 | 698,974 | 4,407,086 |
| Total operating expenses | 2,875,567 | 1,622,738 | 5,477,431 | 6,078,540 | 35,765,728 |
| Operating loss | (2,875,567) | (1,622,738) | (5,477,431) | (6,078,540) | (35,765,728) |
| Interest income | 3,197 | 697 | 5,591 | 1,015 | 8,385 |
| Gain on settlement of accounts payable | 97,253 | 322,333 | 111,199 | 372,759 | 821,300 |
| Interest expense: | | | | | |
| Amortization of discount on convertible debt | (402,467) | (977,258) | (3,449,868) | (1,234,571) | (5,890,410) |
| Amortization of debt issuance costs | (3,332) | | (120,000) | | (120,000) |
| Interest on debt | (93,481) | (82,141) | (505,032) | (143,422) | (889,995) |
| Loss before income taxes | (3,274,397) | (2,359,107) | (9,435,541) | (7,082,759) | (41,836,448) |
| Provision for taxes on income | | | | | |
| Net loss | $ (3,274,397) | $ (2,359,107) | $ (9,435,541) | $ (7,082,759) | $ (41,836,448) |
| Constructive preferred stock dividends | $ | $ | $ | $ | $ (6,000,000) |
| Convertible preferred stock dividends | $ | $ (790) | $ | $ (2,190) | $ (99,483) |
| Net loss applicable to common shareholders | $ (3,274,397) | $ (2,359,897) | $ (9,435,541) | $ (7,084,949) | $ (47,935,931) |
| Basic and diluted loss per share | $ (0.06) | $ (0.08) | $ (0.22) | $ (0.24) | $ (2.68) |

| | | | | | |
|---|---|---|---|---|---|
| Basic and diluted weighted average common shares outstanding | 55,472,263 | 30,229,176 | 43,786,195 | 29,670,735 | 17,864,145 |

See accompanying notes to consolidated financial statements.

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CytoDyn Inc.

(A Development Stage Company)

Consolidated Statement of Cash Flows

(Unaudited)

| | Nine Months Ended February 28, | | October 28, 2003 through |
|---|---|---|---|
| | 2014 | 2013 | February 28, 2014 |
| Cash flows from operating activities | | | |
| Net loss | $ (9,435,541) | $ (7,082,759) | $ (41,836,448) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | | |
| Amortization & depreciation | 263,692 | 3,934 | 669,238 |
| Loss on disposal of furniture and equipment | | | 2,560 |
| Amortization of debt issuance costs | 120,000 | | 120,000 |
| Amortization of discount on convertible debt | 3,449,868 | 1,234,571 | 5,872,749 |
| Interest expense associated with conversion inducement | 193,160 | | 193,160 |
| Gain on settlement of accounts payable | (111,199) | (372,759) | (821,300) |
| Purchased in-process research and development | | | 274,399 |
| Stock-based compensation | 784,337 | 3,025,777 | 12,952,334 |
| Changes in current assets and liabilities: | | | |
| (Increase) decrease in prepaid expenses | (347,914) | (39,281) | (487,763) |
| (Increase) decrease in other assets | | 2,907 | |
| (Decrease) increase in accounts payable, accrued salaries, accrued interest and accrued liabilities | (552,122) | 831,545 | 2,023,056 |
| Net cash used in operating activities | (5,635,719) | (2,396,065) | (21,038,015) |
| Cash flows from investing activities: | | | |
| Asset acquisition of intangibles | | (3,500,000) | (3,500,000) |
| Furniture and equipment purchases | (11,217) | (3,135) | (35,435) |
| Net cash used in investing activities | (11,217) | (3,503,135) | (3,535,435) |
| Cash flows from financing activities: | | | |
| Capital contributions by president | | | 15,748 |
| Proceeds from notes payable to related parties | | | 1,205,649 |
| Preferred stock dividends | | | (1,500) |
| Payments on indebtedness to related parties | | (74,492) | (314,482) |
| Proceeds from issuance of convertible notes payable | 1,200,000 | 5,908,250 | 8,474,250 |
| Payments on convertible notes payable | (250,000) | | (250,000) |
| Proceeds from sale of common stock | 13,642,667 | | 22,608,739 |
| Proceeds from Series B convertible preferred stock | | | 2,009,000 |

| | | | |
|---|---|---|---|
| Purchase of treasury stock | | | (436,000) |
| Proceeds from sale of treasury stock | | | 559,210 |
| Payments of offering costs | (2,204,063) | | (3,234,003) |
| Proceeds from issuance of stock in AITI acquisition | | | 512,200 |
| Proceeds from issuance of stock in AGTI acquisition | | | 100,000 |
| Proceeds from notes payable related to individual | | | 145,000 |
| Payments on notes payable issued to individuals | | | (34,500) |
| Proceeds from exercise of warrants | 50,000 | 192,500 | 606,250 |
| Net cash provided by financing activities | 12,438,604 | 6,026,258 | 31,965,561 |
| Net change in cash | 6,791,668 | 127,058 | 7,392,111 |
| Cash, beginning of period | 603,681 | 284,991 | 3,238 |
| Cash, end of period | $ 7,395,349 | $ 412,049 | $ 7,395,349 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid during the period for: | | | |
| Income taxes | $ | $ | $ |
| Interest | $ 165,354 | $ 55,731 | $ 416,835 |

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CytoDyn Inc.

(A Development Stage Company)

Consolidated Statements of Cash Flows

(Unaudited)

| | Nine Months Ended February 28, | | October 28, 2003 through |
|---|---|---|---|
| | 2014 | 2013 | February 28, 2014 |
| Non-cash investing and financing transactions: | | | |
| Net assets acquired in exchange for common stock in CytoDyn/Rexray business combination | $ | $ | $ 7,542 |
| Common stock issued to former officer to repay working capital advance | $ | $ | $ 5,000 |
| Common stock issued for convertible debt | $ 2,459,000 | $ 567,000 | $ 3,688,000 |
| Common stock issued for debt | $ | $ | $ 245,582 |
| Common stock issued or to be issued for accrued interest payable | $ 84,905 | $ 4,205 | $ 110,066 |
| Options to purchase common stock issued for debt | $ | $ | $ 62,341 |
| Original issue discount and intrinsic value of beneficial conversion feature related to debt issued with warrants | $ 1,200,000 | $ 5,908,250 | $ 8,162,768 |
| Common stock issued for Series A preferred stock | $ | $ | $ 167,500 |
| Treasury stock issued for prepaid services | $ | $ | $ 118,291 |
| Common stock issued on payment of accounts payable | $ | $ 80,000 | $ 129,000 |
| Preferred and common stock subject to rescission | $ 158,500 | $ 1,405,000 | $ 378,000 |
| Amortization of deferred offering costs related to recission liability | $ 28,638 | $ 253,841 | $ 808,133 |
| Accrued stock incentive and deferred offering costs | $ | $ | $ 1,717,000 |
| Common stock issued for Series B convertible preferred stock | $ | $ 19,000 | $ 1,526,484 |
| Series B convertible preferred stock dividends | $ | $ 2,190 | $ 99,483 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Accrued salaries for related party contributed as capital | $ | | $ | | $ | 229,500 |
| Reversal of accrued stock incentive and deferred offering costs | $ | | $ | | $ | 1,717,000 |
| Constructive dividend on Series B convertible preferred stock | $ | | $ | | $ | 6,000,000 |
| Accounts payable extinguished through settlements | $ | 76,181 | $ | 372,759 | $ | 412,947 |
| Common stock issued for common stock payable | $ | | $ | | $ | 388,000 |
| Prepaid stock services | $ | | $ | | $ | 160,800 |
| Common shares issued from escrow | $ | | $ | | $ | 1,425,000 |

See accompanying notes to consolidated financial statements.

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CYTODYN INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF FEBRUARY 28, 2014

(UNAUDITED)

**Note 1 - Organization**

CytoDyn Inc. (the Company ) was incorporated under the laws of Colorado on May 2, 2002 under the name RexRay Corporation ( RexRay ). In October 2003, the Company (under its previous name RexRay Corporation) entered into an Acquisition Agreement with CytoDyn of New Mexico, Inc. Pursuant to the acquisition agreement, the Company acquired assets related to one of the Company s drug candidates, Cytolin, including the assignment of the patent license agreement dated July 1, 1994 between CytoDyn of New Mexico, Inc. and Allen D. Allen covering six United States patents, along with foreign counterpart patents, which describe a method for treating Human Immunodeficiency Virus ( HIV ) disease with the use of monoclonal antibodies.

The Company entered the development stage effective October 28, 2003 upon the reverse merger and recapitalization of the Company and follows Financial Accounting Standard Codification No. 915, Development Stage Entities.

CytoDyn Inc. is developing a class of therapeutic monoclonal antibodies to address significant unmet medical needs in the areas of HIV and Acquired Immune Deficiency Syndrome ( AIDS ).

Advanced Genetic Technologies, Inc. ( AGTI ) was incorporated under the laws of Florida on December 18, 2006 pursuant to an acquisition during 2006.

On May 16, 2011, the Company formed a wholly owned subsidiary, CytoDyn Veterinary Medicine LLC ( CVM ), which explores the possible application of the Company s existing proprietary monoclonal antibody technology to the treatment of Feline Immunodeficiency Virus ( FIV ). The Company views the formation of CVM and the exploration of the application of its existing proprietary monoclonal antibody technology to FIV as an effort to strategically diversify the use of its proprietary monoclonal antibody technology.

**Note 2 - Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) and reflect all adjustments, consisting solely of normal recurring adjustments, needed to fairly present the financial results for these periods. The consolidated financial statements and notes are presented as permitted by Form 10-Q. Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The accompanying consolidated financial statements should be read in conjunction with the financial statements for the fiscal years ended May 31, 2013 and 2012 and notes thereto in the Company s Annual Report on Form 10-K for the fiscal year ended May 31, 2013, filed with the Securities and Exchange Commission on August 29, 2013. Operating results for the three and nine

months ended February 28, 2014 and February 28, 2013 are not necessarily indicative of the results that may be expected for the entire year. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair statement of (a) the results of operations for the three and nine month periods ended February 28, 2014 and February 28, 2013 and the period October 28, 2003 through February 28, 2014, (b) the financial position at February 28, 2014, and (c) cash flows for the nine month periods ended February 28, 2014 and February 28, 2013 and the period October 28, 2003 through February 28, 2014, have been made.

**Principles of Consolidation**

The consolidated financial statements include the accounts of CytoDyn Inc. and its wholly owned subsidiaries, AGTI and CVM. All intercompany transactions and balances are eliminated in consolidation.

**Reclassifications**

Certain prior year amounts shown in the accompanying consolidated financial statements have been reclassified to conform to the fiscal 2014 presentation. These reclassifications did not have any effect on total current assets, total assets, total current liabilities, total liabilities, total shareholders equity(deficit), or net loss.

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**Going Concern**

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying consolidated financial statements, the Company is currently in the development stage with no revenues and with losses for all periods presented. The Company incurred a net loss of $9,435,541 for the nine months ended February 28, 2014, and has an accumulated deficit of $43,438,360. These factors, among others, raise substantial doubt about the Company s ability to continue as a going concern.

The consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company s continuation as a going concern is dependent upon its ability to obtain additional operating capital, complete development of one or more of its drug therapies, obtain U.S. Food & Drug Administration ( FDA ) approval, outsource manufacturing of each such approved drug therapy, and ultimately to attain profitability. The Company intends to seek additional funding through debt and equity offerings to fund its business plan. There can be no assurance, however, that the Company will be successful in these endeavors.

**Use of Estimates**

The preparation of the consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of consolidated financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

**Cash**

Cash is maintained at financial institutions and, at times, balances may exceed federally insured limits. We have never experienced any losses related to these balances. All of our non-interest bearing cash balances were fully insured through December 31, 2012, due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there was no limit to the amount of insurance for eligible accounts. Beginning 2013, insurance coverage reverted back to $250,000 per depositor at each financial institution, and our cash balances may again exceed federally insured limits. Deposit in excess of federally insured limits at February 28, 2014 and May 31, 2013 approximated $7,464,000 and $386,000 respectively.

**Impairment of Long-Lived Assets**

The Company evaluates the carrying value of long-lived assets under U.S. GAAP, which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows estimated to be generated by those assets are less than the assets carrying amount. If such assets are impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of, if any, are reported at the lower of the carrying value or fair value, less costs to sell. There were no impairment charges for the three and nine months ended February 28, 2014 and February 28, 2013, and for the period October 28, 2003 through February 28, 2014.

**Research and Development**

Research and development costs are expensed as incurred.

**Financial Instruments**

At February 28, 2014 and May 31, 2013, the carrying value of the Company s financial instruments approximates fair value due to the short-term maturity of the instruments. The Company s notes payable have market rates of interest, and accordingly, the carrying values of the notes approximate the fair value less the applicable discount arising from the beneficial conversion feature and the value of attached warrants, as required by U.S. GAAP.

**Stock-Based Compensation**

U.S. GAAP requires companies to measure the cost of employee services received in exchange for the award of equity instruments based on the fair value of the award at the date of grant. The expense is to be recognized over the period during which an employee is required to provide services in exchange for the award (requisite service period).

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The Company accounts for common stock options and common stock warrants based on the fair market value of the instrument using the Black-Scholes option pricing model utilizing certain weighted average assumptions such as expected stock price volatility, term of the options and warrants, risk-free interest rates, and expected dividend yield at the grant date. The risk-free interest rate assumption is based upon observed interest rates appropriate for the expected term of the stock options. The expected volatility is based on the historical volatility of the Company s common stock at consistent intervals. The Company has not paid any dividends on its common stock since its inception and does not anticipate paying dividends on its common stock in the foreseeable future. The computation of the expected option term is based on the simplified method, as the Company s stock options are plain vanilla options and the Company has a limited history of exercise data. For common stock options and warrants with periodic vesting, the Company recognizes the related compensation costs associated with these options and warrants on a straight-line basis over the requisite service period.

U.S. GAAP requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Based on limited historical experience of forfeitures, the Company estimated future unvested option forfeitures at 0% for all periods presented.

**Deferred Offering Costs**

In connection with a stock rescission liability as discussed at Note 3, the Company has recorded approximately $68,300 and $97,000 in deferred offering costs as of February 28, 2014 and May 31, 2013, respectively. These deferred offering costs have been recorded as a current asset for the respective periods. The asset will be offset against equity and reduce equity at the end of the applicable period during which the investors described in Note 3 do not assert their rescission rights and retain their shares. Conversely, if the investors assert their rescission rights and forfeit their shares, the deferred offering costs will be expensed at that time.

During the nine months ended February 28, 2014, the Company incurred $120,000 in direct costs associated with the issuance of convertible notes as described at Note 4, and recorded $120,000 in amortization expense for the nine months ended February 28, 2014.

During the nine months ended February 28, 2014, the Company incurred approximately $2,084,000 in direct incremental costs associated with sale of the equity securities as described in Note 6. The offering costs were recorded as a component of equity when the proceeds were received. The offering was completed on October 23, 2013.

**Stock for Services**

The Company periodically issues common stock, warrants and common stock options to consultants for various services. Costs of these transactions are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The value of the common stock is measured at the earlier of (i) the date at which a firm commitment for performance by the counterparty to earn the equity instruments is reached or (ii) the date at which the counterparty s performance is complete.

**Loss per Common Share**

Basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted loss per share is computed by dividing net loss by the weighted average common shares and potentially dilutive common share equivalents. The effects of potential common stock equivalents are not included in computations when their effect is anti-dilutive. Because of the net losses for all periods presented, the basic and diluted weighted average shares outstanding are the same since including the additional shares would

have an anti-dilutive effect on the loss per share calculation. Common stock options and warrants to purchase 31,970,327 and 18,038,297 shares of common stock were not included in the computation of basic and diluted weighted average common shares outstanding for the nine months ended February 28, 2014 and February 28, 2013, respectively, as inclusion would be anti-dilutive for these periods. Additionally, as of February 28, 2014, 95,100 shares of Series B convertible preferred stock can potentially convert into 951,000 shares of common stock, and $4,521,250 of convertible debt can potentially convert into 6,028,333 shares of common stock.

**Income Taxes**

Deferred taxes are provided on the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Future tax benefits for net operating loss carry forwards are recognized to the extent that realization of these benefits is considered more likely than not. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

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The Company follows the provisions of FASB ASC 740-10 Uncertainty in Income Taxes (ASC 740-10). A reconciliation of the beginning and ending amount of unrecognized tax benefits has not been provided since there are no unrecognized benefits for all periods presented. The Company has not recognized interest expense or penalties as a result of the implementation of ASC 740-10. If there were an unrecognized tax benefit, the Company would recognize interest accrued related to unrecognized tax benefit in interest expense and penalties in operating expenses. The Company is subject to examination by the Internal Revenue Service and state tax authorities for tax years ending after 2009.

**Note 3 - Rescission Liabilities**

The Company s board of directors (the Board ) was advised by outside legal counsel that compensation the Company previously paid to an employee and certain other non-employees who were acting as unlicensed, non-exempt broker-dealers soliciting investors on behalf of the Company from April 15, 2008 to February 18, 2011 was a violation of certain state and possibly federal securities laws. As a result, such investors and potentially others have rescission or monetary claims ( Claims ) against the Company, and the Company s liability for these potential Claims is reflected in the Company s financial statements. On March 16, 2011, the Company filed a Current Report on Form 8-K disclosing the potential rescission liability (the Liability Disclosure ).

Rescission rights for individual investors and subscribers vary, based upon the laws of the states in which the investors or subscribers reside. Investments and subscriptions that are subject to rescission are recorded separately in our financial statements from shareholders equity in the Company s balance sheet. As the statutory periods for pursuing such rights expire in the respective states, such amounts for those shares have been reclassified to shareholders equity. Investors who have sold their shares of capital stock of the Company do not have rescission rights, but instead have claims for damages, to the extent their shares were sold at a net loss, which is determined by subtracting the purchase price plus statutory interest and costs, if any, from the sale price.

The Company estimates an amount that is a probable indicator of the rescission liability and recorded rescission liabilities for February 28, 2014 and May 31, 2013 of $378,000 and $536,500, respectively. These amounts represent the believed remaining potential rescission liability as of the dates presented to investors who pursue their rescission rights and forfeit their shares. For the purpose of calculating and disclosing rescission liability, the Company has assumed that portions of the state Claims are barred by the statutes of limitations of certain states based upon a literal interpretation of the applicable statute. Although the Company has assumed that affirmative defenses based upon the application of the statutes of limitations in these states may be generally available to bar these state Claims, it has not had legal counsel undertake a detailed analysis of case law that might apply to defer or avoid application of a bar to such claims; thus, if rescission claims are made for those assumed to be barred by a statute of limitations and such claims are contested by the Company, until such affirmative defenses are ruled upon in a proceeding adjudicating the rights at issue, no assurances can be made that, if asserted, such defenses would actually bar the rescission claims in these states.

The Company considered methods to offer to rescind the previous investment purchase or subscription by persons who acquired or subscribed for investments during the period April 15, 2008 to February 18, 2011, but did not pursue any such methods.

**Note 4 - Convertible Instruments**

During fiscal 2010, the Company issued 400,000 shares of Series B Convertible Preferred Stock ( Series B ) at $5.00 per share for cash proceeds totaling $2,009,000, of which 95,100 shares remain outstanding at February 28, 2014. Each share of the Series B is convertible into ten shares of the Company s common stock including any accrued

dividend, with an effective fixed conversion price of $.50 per share. The holders of the Series B can only convert their shares to common shares provided the Company has sufficient authorized common shares at the time of conversion. Accordingly, the conversion option was contingent upon the Company increasing its authorized common shares, which occurred in April 2010, when the Company s shareholders approved an increase to the authorized shares of common stock to 100,000,000. At the commitment date, which occurred upon such shareholder approval, the conversion option related to the Series B was beneficial. The intrinsic value of the conversion option at the commitment date resulted in a constructive dividend to the Series B holders of approximately $6,000,000. The constructive dividend increased and decreased additional paid-in capital by identical amounts. The Series B has liquidation preferences over the common shares at $5.00 per share plus any accrued dividends. Dividends are payable to the Series B holders when declared by the board of directors at the rate of $.25 per share per annum. Such dividends are cumulative and accrue whether or not declared and whether or not there are any profits, surplus or other funds or assets of the Company legally available. The Series B holders have no voting rights. During the nine months ended February 28, 2014 and fiscal year ended May 31, 2013, the Company issued $1,200,000 and $6,588,250, respectively, of unsecured convertible notes (the Notes ) to investors for cash. Each Note is convertible, at the election of the holder, at any time into common shares at a fixed conversion price of the principal balance. At February 28, 2014, $4,521,250 was convertible at $.75 per share (see Note 5). During the three months ended February 28, 2014, one holder of a six-month $100,000 convertible note elected to convert the principal, plus accrued interest of $2,151, resulting in the issuance of 157,154 shares of common stock at a conversion price of $.65 per share. During the nine months ended February 28, 2014, one holder of a six-month convertible note with a principal

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amount of $250,000 exercised the right to receive repayment. In addition, two holders of six-month convertible notes with principal totaling $380,000 converted the aggregate principal amount, plus accrued but unpaid interest totaling $6,351, into common stock at a conversion price of $.65 per share, resulting in the issuance of a total of 594,384 shares of common stock. The holders received warrants to purchase 292,307 shares of common stock at an exercise price of $.75 per share which will expire five years after issuance. Pursuant to U.S. GAAP, these warrants were characterized as inducements to convert the debt and, as such, gave rise to the recognition of non-cash interest expense of approximately $193,000 during the nine months ended February 28, 2014 based upon a Black-Scholes valuation.

The holders of three-year convertible notes with principal totaling $1,120,000 also converted, during the nine months ended February 28, 2014, the aggregate principal amount into common stock at a conversion price of $.75 per share, resulting in the issuance of 1,493,333 shares of common stock. The remaining notes totaling $4,521,250 are payable in full between October 1, 2015 and March 6, 2016 and bear interest at rates that range from 5% to 10% per year, payable in cash semi-annually in arrears beginning on April 1, 2013.

In connection with the initial sale of the Company s convertible notes, detachable common stock warrants, with terms of two or three years, were issued to the investors to purchase a total of 9,451,056 common shares at exercise prices ranging from $.50 to $2.00 per share. The warrants are currently exercisable in full. The Company determined the fair value of the warrants using the Black-Scholes option pricing model utilizing certain weighted average assumptions such as expected stock price volatility, term of the warrants, risk-free interest rates, and expected dividend yield at the commitment date.

Additionally, at the commitment date, the Company determined that the conversion feature related to the Notes was beneficial to the investors. As a result, the Company determined the intrinsic value of the conversion feature utilizing the fair value of the common stock at the commitment date and the effective conversion price after discounting the Notes for the fair value of the warrants. The fair value of the warrants and the intrinsic value of the conversion feature were recorded as a debt discount to the Notes, and a corresponding increase to additional paid-in capital. The respective debt discounts, at the commitment dates, exceeded the face amount of the Notes, and accordingly, the discounts were limited to the cash proceeds received from the Notes. The debt discounts are being amortized over the life of the Notes. During the three and nine months ended February 28, 2014 and 2013, the Company recognized approximately $402,000 and $3,450,000, and $977,000 and $1,235,000, respectively, in expense related to amortization of the debt discount. For the period October 28, 2003 through February 28, 2014, the Company recognized approximately $5,158,000 in expense related to amortization of the debt discount. The unamortized discounts are fully amortized upon the conversion of the Notes before maturity. Activity related to the Notes was as follows:

| | February 28, 2014 | May 31, 2013 |
|---|---|---|
| Face amount of Notes | $ 7,221,250 | $ 6,588,250 |
| Unamortized discount | (2,290,019) | (4,539,886) |
| Exercise Right of Repayment | (250,000) | |
| Conversions | (2,450,000) | (567,000) |
| Total carrying value of Notes | 2,231,231 | 1,481,364 |
| Short-term portion of Notes | (248,423) | (328,347) |

| | | |
|---|---|---|
| Long-term portion of Notes | $ 1,982,808 | $ 1,153,017 |

**Note 5 - Stock Options and Warrants**

The Company has one active stock-based equity plan at February 28, 2014. Pursuant to the 2004 Stock Incentive Plan, as amended, which was approved by the Company s shareholders in 2005, the Company was authorized to grant options to purchase up to 7,600,000 shares of the Company s common stock. On December 12, 2012, the Company s shareholders approved, at its annual meeting, the CytoDyn Inc. 2012 Equity Incentive Plan (the 2012 Plan ), which replaced the 2004 Stock Incentive Plan and provides for the issuance of up to 3,000,000 shares of common stock pursuant to various forms of incentive awards allowed under the 2012 Plan. As of February 28, 2014 the Company had 1,538,903 shares available for future stock-based grants under the 2012 Plan.

During the nine months ended February 28, 2014, the Company granted options to purchase a total of 299,452 shares of common stock to directors and an employee with exercise prices ranging from $.80 to $1.09 per share. The director option awards vest at 25% per quarter over one year and the employee award vests one-third annually with a five year term. The weighted average grant date fair value related to these options was $.49 per share.

During the nine months ended February 28, 2014, the Company granted options to purchase 305,000 shares of common stock to a consultant with an exercise price of $.75 per share and a grant-date fair value of $.43 per share. The options, which will terminate on September 4, 2018, vested as to 50,000 shares on the date of issuance and will vest at the monthly rate of 15,000 shares for each month during which the consulting agreement is in place. The consulting agreement, which has a term of 18 months, may be terminated for any reason after six months (See Note 10).

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During the nine months ended February 28, 2014, the holder of a warrant covering 50,000 shares exercised the right to purchase such shares at $1.00 per share. Cash proceeds from the exercise of warrants were $50,000 and $192,500 for the nine months ended February 28, 2014 and 2013.

During the nine months ended February 28, 2014, the Company issued a warrant to purchase 50,000 shares of common stock at a purchase price of $.75 per share and with a term expiring November 1, 2016 in settlement of a claim for telecommunications services provided to the Company in the fall of 2012.

During the nine months ended February 28, 2014 the Company issued 11,153,850 common stock warrants to investors in the Company s $14.5 million private equity offering (see Note 6). Investors in the offering purchased Units at $1.30 per Unit, consisting of two shares of common stock plus a warrant to purchase one share of common stock. Each Unit warrant has an exercise price of $.75 per share and a five-year term. In connection with this private placement and pursuant to the Placement Agent Agreement dated June 1, 2013 as amended, the Company issued to its Placement Agent, as additional compensation, a warrant covering 4,940,092 common shares with an exercise price of $.75 per share and a seven-year term. The warrants vest immediately, and had a grant-date fair value of $1.03 per share. The fair value of the warrants was included as a component of equity, increasing and decreasing equity for the fair value of the warrants.

Compensation expense related to stock options and warrants issued as compensation was approximately $298,000 and $784,400 and $473,000 and $2,827,000 for the three and nine months ended February 28, 2014 and February 28, 2013, respectively. The grant date fair value of options and warrants vested during the three and nine month periods ended February 28, 2014 and February 28, 2013 was approximately $417,000 and $1,991,400, and $378,000 and $8,773,000, respectively. As of February 28, 2014, there was approximately $1,390,200 of unrecognized compensation expense related to share-based payments for unvested options, which is expected to be recognized over a weighted average period of 1.98 years.

The following table represents stock option and warrant activity as of and for the nine months ended February 28, 2014:

| | | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life in Years | Aggregate Intrinsic Value |
|---|---|---|---|---|---|
| Options and warrants outstanding | May 31, 2013 | 18,146,938 | $ 1.65 | 1.86 | $ 140,321 |
| Granted | | 18,114,156 | $ 0.74 | | |
| Exercised | | (50,000) | $ | | |
| Forfeited/expired/cancelled | | (4,240,767) | $ 1.53 | | |
| Options and warrants outstanding | February 28, 2014 | 31,970,327 | $ 1.15 | 3.39 | $ 2,691,129 |
| Outstanding exercisable | February 28, 2014 | 30,211,160 | $ 1.15 | 3.38 | $ 2,591,729 |

**Note 6 - Private Equity Offering**

On October 23, 2013, the Company completed a private equity offering (the Offering ). Pursuant to the Offering, the Board authorized the sale of 11,153,850 Units at a price of $1.30 per Unit, for total gross proceeds of approximately $14.5 million. Each Unit consisted of two shares of common stock and one warrant to purchase common stock at an exercise price of $.75 per share. During the nine months ended February 28, 2014, the Company issued 20,989,494 shares of common stock. Additionally, as described in Note 4, certain convertible note investors also participated in the Offering, and converted approximately $857,000 in convertible notes and accrued interest into Units, resulting in the issuance of 1,318,206 shares of common stock. In conjunction with the Offering, the Company issued 11,153,850 warrants (see Notes 2 and 5 for a description of the warrants and offering costs related to the Offering).

**Note 7 - Recent Accounting Pronouncements**

Recent accounting pronouncements issued by the FASB (including its EITF), the AICPA, and the SEC did not or are not believed by management to have a material effect on the Company s present or future financial statements.

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**Note 8 - Related Party Transactions**

As of February 28, 2014, the Company had a note payable to a director of the Company for $500,000. The term note is included in indebtedness to related parties on the consolidated balance sheet as of February 28, 2014. The note bears interest at an annual rate of 15%, and principal and interest are payable in full at the April 11, 2014 maturity date. Interest is payable in the form of shares of common stock not to exceed 150,000 shares at a fixed price of $.50 per share. For the three and nine months ended February 28, 2014, the Company has recorded approximately $18,500 and $56,100 in interest expense, respectively. As of February 28, 2014, the Company has recorded approximately $28,800 in common stock payable related to accrued interest.

During the year ended May 31, 2013, the Company issued a convertible note (see Note 4) to the above director. The note has a face value of $1,000,000, and interest is payable at a rate of 5% in cash semi-annually in arrears beginning on April 1, 2013. The principal of the note is payable in full at the October 16, 2015 maturity date. The note is convertible into common shares at a fixed conversion price of $.75 per share at any time at the election of the holder of the note. In conjunction with the note, the Company issued 1,333,333 detachable common stock warrants at an exercise price of $2.00 per share. The warrants expire on October 16, 2014. The Company recorded debt discounts related to the fair value of the warrants and the intrinsic value of the beneficial conversion feature at the commitment date of the note. As of February 28, 2014, the carrying value of this convertible note was approximately $457,000, which is included in convertible notes payable, net in long-term liabilities on the consolidated balance sheet. During the three and nine months ended February 28, 2014 and 2013, the Company recognized approximately $82,200 and $250,000 and $82,200 and $123,300 respectively, in interest expense related to the amortization of the above discounts.

The above terms and amounts are not necessarily indicative of the terms and amounts that would have been incurred had comparable transactions been entered into with independent parties.

**Note 9 - Commitments and Contingencies**

On July 25, 2012, the Company and Kenneth J. Van Ness entered into a Transition Agreement (the Transition Agreement ). Pursuant to the Transition Agreement, Mr. Van Ness stepped down as Chairman of the Board, effective immediately, and as President and CEO of the Company on September 10, 2012. Mr. Van Ness ceased to be a director on December 12, 2012.

The Transition Agreement provides that, in lieu of any compensation otherwise payable to Mr. Van Ness under his Executive Employment Agreement, (the Employment Agreement ) with the Company, during the period beginning on July 18, 2012 through October 16, 2012 (the Transition Period ), Mr. Van Ness would be paid a salary equal to $13,890 per month and continue to receive the fringe benefits, indemnification and miscellaneous business expense benefits provided for in the Employment Agreement. Mr. Van Ness is also entitled to (i) receive a cash severance payment equal to $13,890 per month for 33 months following the Transition Period, (ii) the opportunity to elect the timing of distribution of his account balance in the Company s 401(k) Plan, and (iii) reimbursement for continuing health care insurance coverage under COBRA for nine months.

The Transition Agreement also amended (A) the CytoDyn Inc. Stock Option Award Agreement, dated December 6, 2010, with Mr. Van Ness to provide for immediate vesting of all of the 500,000 options granted at $1.19 per share, and (B) the CytoDyn Inc. Stock Option Award Agreement, dated April 16, 2012, but effective as of August 9, 2011, with Mr. Van Ness to provide for (i) immediate vesting of 750,000 of the 1,500,000 options granted at $2.00 per share, and (ii) forfeiture of the remaining 750,000 options. In addition, the expiration date of the 25,000 options granted to Mr. Van Ness on September 22, 2010, as well as the options described above, is August 8, 2016. Pursuant

to the terms of the Transition Agreement described above, as of February 28, 2014, the Company has accrued approximately $234,400 in severance liabilities. The Company accrued for the severance payable to Mr. Van Ness, as he has no significant continuing service obligation to the Company.

Under the Asset Purchase Agreement (the Asset Purchase Agreement ) dated July 22, 2012, between the Company and Progenics Pharmaceuticals, Inc. ( Progenics ), the Company acquired from Progenics its proprietary HIV viral-entry inhibitor drug candidate PRO 140 ( PRO 140 ), a humanized anti-CCR5 monoclonal antibody, as well as certain other related assets, including the existing inventory of bulk PRO 140 drug product, intellectual property, certain related licenses and sublicenses, and U.S. Food and Drug Administration ( FDA ) regulatory filings. On October 16, 2012, the Company paid $3,500,000 in cash to Progenics to close the acquisition transaction. The Company is also required to pay Progenics the following milestone payments and royalties: (i) $1,500,000 at the time of the first dosing in a U.S. Phase III trial or non-U.S. equivalent; (ii) $5,000,000 at the time of the first U.S. new drug application approval by the FDA or other non-U.S. approval for the sale of PRO 140; and (iii) royalty payments of up to five percent (5%) on net sales during the period beginning on the date of the first commercial sale of PRO 140 until the later of (a) the expiration of the last to expire patent included in the acquired assets, and (b) 10 years, in each case determined on a country-by-country basis. Payments to Progenics are in addition to payments due under a Development and License Agreement, dated April 30, 1999 (the PDL License ), between Protein Design Labs (now AbbVie Inc.) and Progenics, which was assigned to us in the PRO 140 transaction, pursuant to which we must pay additional milestone payments and royalties as follows: (i) $1,000,000 upon initiation of a Phase III clinical trial; (ii) $500,000 upon filing a Biologic License Application with the FDA or non-U.S. equivalent regulatory body;

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(iii) $500,000 upon FDA approval or approval by another non-U.S. equivalent regulatory body; and (iv) royalties of up to 7.5% of net sales for the longer of 10 years and the date of expiration of the last to expire licensed patent. Additionally, the PDL License provides for an annual maintenance fee of $150,000 until royalties paid exceed that amount.

Effective January 20, 2014, CytoDyn Inc. (the Company ) entered into two Project Work Orders (the PWOs ) with its principal clinical research organization, Amarex Clinical Research, LLC (the CRO ). The services to be provided under the PWOs are intended to facilitate the Company s plan to expand and accelerate the concurrent evaluation of additional potential treatment applications of its principal product candidate, PRO 140.

The CRO has agreed to provide comprehensive clinical trial services in connection with two research studies involving PRO 140 currently under consideration. The estimated combined cost of the studies totals $9.3 million, of which $5.1 million relates to services to be provided directly by the CRO and the remainder to pass-through costs to be provided by third parties. Each PWO may be terminated by either party at any time upon 30 days prior written notice, provided the CRO will be entitled to payment for services provided through the date of termination, plus an amount equal to 30% of the remaining contract amount for direct services. The Company paid the CRO a total deposit of approximately $790,000 in December 2013. One of the research studies under consideration has since been postponed. The CRO has agreed not to impose a financial penalty and has further agreed to allow the Company to apply the portion of the December 2013 deposit related to this study of approximately $343,000 to all amounts due to the CRO.

**Note 10 - Subsequent Events**

Subsequent to quarter end and effective March 6, 2014, the holder of a six-month promissory note in the principal amount of $250,000, was repaid at maturity, along with accrued interest of $2,396.

On March 17, 2014, the Company tendered its 30-day notice to terminate a consultant to which it had previously granted an option covering 305,000 shares of common stock with an exercise price of $.75 per share. At the time of termination, 140,000 shares had vested and an additional 15,000 shares will vest within the notice period. As a consequence of the termination of the consulting agreement, an option covering 150,000 shares will be forfeited.

On the maturity date of April 11, 2014, the Company repaid a note payable to a director of the Company in the principal amount of $500,000 plus accrued interest at an annual rate of 15%, payable in the form of shares of common stock at a fixed price of $.50 per share. As such, 74,795 shares of common stock were issued for accrued interest payable of $37,397 at April 11, 2014.

**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.**

Throughout this filing, we make forward-looking statements. The words anticipate, believe, expect, intend, predic plan, seek, estimate, project, will, continue, could, may, and similar terms and expressions are intended forward-looking statements. These statements include, among others, information regarding future operations, future capital expenditures, and future net cash flows. Such statements reflect the Company s current views with respect to future events and financial performance and involve risks and uncertainties, including, without limitation, regulatory initiatives and compliance with governmental regulations, the ability to raise additional capital, the results of clinical trials for our drug candidates, and various other matters, many of which are beyond the Company s control. Should one or more of these risks or uncertainties occur, or should underlying assumptions prove to be incorrect, actual results may vary materially and adversely from those anticipated, believed, estimated, or otherwise indicated. Consequently,

all of the forward-looking statements made in this filing are qualified by these cautionary statements and there can be no assurance of the actual results or developments. See also Part II, Item 1A in this report.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the other sections of this Quarterly Report, including our financial statements and related notes appearing elsewhere herein. This discussion and analysis contains forward-looking statements including information about possible or assumed results of our financial condition, operations, plans, objectives and performance that involve risk, uncertainties and assumptions. The actual results may differ materially from those anticipated and set forth in such forward-looking statements.

Results of Operations

***Results of operations for the three months ended February 28, 2014 and 2013 are as follows:***

For the three months ended February 28, 2014 and February 28, 2013, we had no activities that produced revenues from operations.

For the three months ended February 28, 2014, we had a net loss of approximately $3,274,000 compared to a net loss of approximately $2,359,000 for the corresponding period in 2013. The increase in net loss of approximately $915,000 over the comparable three-month period in 2013 was due primarily to an increase of $1.6 million in research and development expense and a reduction of $225,000 in gain on settlement of accounts payable. The net effect of these changes was offset by a reduction of approximately $571,000 of non-cash expense related to the amortization of debt discount, coupled with a reduction of approximately $437,000 in general and administrative expenses.

For the three months ended February 28, 2014 and February 28, 2013, we incurred operating expenses of approximately $2,876,000 and $1,623,000, respectively. Operating expenses consist primarily of salaries and benefits, stock-based compensation,

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amortization of patents, professional fees, legal fees, research and development and various other operating expenses. The increase of $1,253,000 in operating expenses was primarily due to the increase in research and development, which we expect to continue to trend higher as we prepare to commence human clinical trials with our lead product candidate, PRO 140, and to concurrently explore other therapeutic opportunities for our monoclonal antibodies. The increase in research and development of $1.6 million was offset in part by a reduction of approximately $437,000 in general and administrative expenses driven by lower stock-based compensation, incentive compensation and outside professional services, but higher amortization.

As previously reported, the Company is pursuing two concurrent clinical trials for its lead product candidate, PRO 140. The first trial is being conducted pursuant to a clinical trial agreement between the Company and Drexel University College of Medicine ( Drexel ). This trial is funded primarily by an NIH grant to Drexel totaling approximately $8.4 million. Our second clinical trial is to evaluate PRO 140 as a treatment substitution therapy, whereby patients who are in need of a drug holiday (due to toxicity and side effects issues from their current drug regimen) will receive a mono-therapy in the form of a weekly injection of PRO 140 over four to eight weeks, while the patients viral load is monitored weekly. We recently engaged Amarex Clinical Research LLC ( Amarex ) to act as our clinical research organization for the treatment substitution clinical trial, which is self-funded. Our ability to continue to fund our operating expenses will depend on our ability to raise additional capital. Stock-based compensation expense may also increase, as we continue to compensate consultants, directors and employees with common stock and stock options.

Interest expense for the three months ended February 28, 2014 is comprised of (i) a non-cash charge related to the amortization of debt discount attributable to convertible notes, (ii) the amortization of debt issuance costs and (iii) accrued interest payable on outstanding notes. The amortization of debt discount of approximately $402,000 for the three months ended February 28, 2014 represents the amortization of the fair value of the related warrants and the intrinsic value of the beneficial conversion feature of the convertible notes payable. The amount of amortization recognized during the most recent quarter was disproportionately lower than the same period a year ago due to notes converted into shares of common stock in previous periods.

The future trends in all of our expenses will be driven, in part, by the future outcomes of clinical trials and the correlative effect on general and administrative expenses, especially FDA regulatory requirements, in addition to the possibility that all or a portion of the holders of the Company s outstanding convertible notes may elect to convert their notes into common stock, which would reduce future cash interest expense, and accelerate non-cash amortization of the debt discounts associated with the convertible notes. We anticipate that research and development costs during the three months ending May 31, 2014, will total at least $3.3 million, of which we had made an advanced deposit in December 2013 of approximately $790,000 to Amarex, which has been amortized down to approximately $287,000 as of February 28, 2014 and is expected to be fully amortized during the three months ending May 31, 2014. See Part II, Item 1A in this report.

***Results of operations for the nine months ended February 28, 2014 and 2013 are as follows:***

For the nine months ended February 28, 2014 and February 28, 2013, we had no activities that produced revenues from operations.

For the nine months ended February 28, 2014, we had a net loss of approximately $9.4 million, as compared to a net loss of approximately $7.1 million for the similar 2013 period. The increased net loss for 2014 over 2013 was primarily due to increased research and development expense and higher interest expense offset in part by a reduction of approximately $2.9 million in general and administrative expenses. The $2.7 million increase in interest expense was attributable to non-cash interest expense related to the amortization of debt discount and to a non-cash interest

charge arising from the inducement of certain note conversions.

For the nine months ended February 28, 2014, operating expenses of $5.5 million declined approximately $600,000 from the comparable 2013 period due to lower general and administrative and legal expenses, offset in part by higher research and development expenses. The decline in general and administrative expenses was attributable to lower stock-based compensation and salaries. Higher research and development expenses reflect increased activities to prepare our PRO 140 monoclonal antibody for the two Drexel clinical trials and our self-funded treatment substitution clinical trial.

Interest expense for the nine months ended February 28, 2014 was comprised of (i) a non-cash charge related to the amortization of debt discount attributable to convertible notes, (ii) a non-cash charge of approximately $193,000 related to the fair value of warrants issued to induce the conversion of certain promissory notes, (iii) the amortization of debt issuance costs and (iv) accrued interest payable on outstanding notes. The amortization of debt discount of approximately $3.5 million for the nine months ended February 28, 2014 represents the amortization of the fair value of the related warrants and the intrinsic value of the beneficial conversion feature of the convertible notes payable. The amount of amortization recognized during this period also includes a disproportionate amount of debt discount arising from the conversion of the notes into common stock. For the similar period in 2013, the long-term convertible promissory notes had been outstanding for approximately 135 days as compared to approximately 274 days in the nine months ended February 28, 2014. In addition, the Company issued $1.2 million of short-term convertible notes in July 2013, thereby increasing the lack of comparability of total interest expense between the two nine-month periods.

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Liquidity and Capital Resources

The Company s cash position for the nine months ended February 28, 2014 increased to approximately $7,400,000 as compared to approximately $604,000 as of May 31, 2013.

On February 28, 2014, working capital was approximately $ 5,683,000 as compared to negative working capital of approximately $(2,388,000) at May 31, 2013. The Company s improved liquidity position was the result of its previously reported $14.5 million private equity offering completed on October 23, 2013.

*Cash Flows*

Net cash used in operating activities totaled approximately $5,636,000 during the nine months ended February 28, 2014, which reflects an increase of approximately $3,240,000 from net cash used in operating activities of approximately $2,396,000 for the nine months ended February 28, 2013. The $5,636,000 of net cash used in operating activities for the nine months ended February 28, 2014 represents the effect of a $9.4 million net loss combined with a $552,000 decrease in payables and accrued liabilities, offset in part by non-cash expenses totaling approximately $4.7 million related to amortization of debt discount, the issuance of warrants to induce the conversion of debt into stock, stock-based compensation and depreciation and amortization.

Net cash used in investing activities totaled approximately $11,200 during the nine months ended February 28, 2014, which reflects a decrease of approximately $3,500,000 from net cash used in investing activities for the nine months ended February 28, 2013 attributable to the acquisition of PRO 140 during the comparable 2013 period.

Net cash provided by financing activities of approximately $12,439,000 for the nine months ended February 28, 2014 increased approximately $6,400,000 over the comparable nine-month period ended February 28, 2013 as a result of a private equity offering that provided net cash of approximately $11,559,000 after offering costs of approximately $2.0 million. Additionally, during the nine months ended February 28, 2014, $1.2 million of convertible notes payable were issued, $250,000 was repaid and warrants were exercised for 50,000 shares of common stock at a price of $1.00 per share.

As reported in the accompanying financial statements, for the nine months ended February 28, 2014 and February 28, 2013, and since October 28, 2003 through February 28, 2014, we incurred net losses of approximately $9,436,000 and $7,083,000 and $41,836,000, respectively. As of February 28, 2014, we have not emerged from the development stage. In view of these matters, our ability to continue as a going concern is dependent upon our ability to raise additional capital, commence operations and to achieve a level of profitability. Since inception, we have financed our activities principally from the sale of public and private equity securities and proceeds from convertible notes and related party notes payable. We intend to finance our future development activities and our working capital needs largely from the sale of debt and equity securities, combined with additional funding from other traditional financing sources.

As previously noted, since October 28, 2003, we have financed our operations largely from the sale of common stock and preferred stock and proceeds from various notes payable. From October 28, 2003 through February 28, 2014, we raised cash of approximately $21,384,000 (net of offering costs) through private placements of common and preferred stock and approximately $9,825,000 through the issuance of related party notes payable and convertible notes. Additionally, the Company raised approximately $612,000 from the issuance of common stock and preferred stock in conjunction with certain acquisitions in prior years. We have raised approximately $606,000 through the exercise of common stock warrants and options. In April 2010, our shareholders voted to amend our Articles of Incorporation to increase the number of authorized shares of common stock to 100,000,000 shares.

As of the date of this filing, it is management s conclusion that the probability of achieving certain future scientific research milestones is not reasonably determinable, such that the future milestone payments payable to Progenics and its sub-licensors are deemed contingent consideration and therefore are not currently accruable.

Since October 28, 2003 through February 28, 2014, we have incurred approximately $5,767,000 of research and development costs and approximately $35,766,000 in operating expenses. We have incurred significant net losses and negative cash flows from operations since our inception. As of February 28, 2014, we had an accumulated deficit of approximately $43,438,000 and positive working capital of approximately $5,683,000.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

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**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**
Not Applicable.

**Item 4. Controls and Procedures.**
Disclosure Controls and Procedures

As of February 28, 2014, under the supervision and with the participation of the Company s Chief Executive Officer and Chief Financial Officer, management has evaluated the effectiveness of the design and operations of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of February 28, 2014. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were not effective as of February 28, 2014 as a result of the material weakness in internal control over financial reporting because of inadequate segregation of duties over authorization, review and recording of transactions, as well as the financial reporting of such transactions. Management is attempting to develop a plan to mitigate the above material weaknesses. Despite the existence of these material weaknesses, we believe the financial information presented herein is materially correct and in accordance with generally accepted accounting principles.

Internal Control Over Financial Reporting

*Changes in Internal Control Over Financial Reporting*

No change in the Company s internal control over financial reporting occurred during the quarter ended February 28, 2014, that materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

**PART II**

**Item 1. Legal Proceedings.**
None.

**Item 1A. Risk Factors.**
The risks enumerated below are not the only risks we face, and the listed risk factors are not intended to be an all-inclusive discussion of all of the potential risks relating to our business. Any of the risk factors described below could significantly and adversely affect our business, prospects, financial condition and results of operations. Additional risks and uncertainties not currently known or that are currently considered to be immaterial may also materially and adversely affect our business.

**Risks Related to Our Business**

***We are a development-stage company and have a history of significant operating losses; we expect to continue to incur operating losses, and we may never achieve or maintain profitability.***

We have not generated any revenue from product sales or licensing to date. Since our inception, we have incurred operating losses in each year due to costs incurred in connection with our collaborative research and development activities and general and administrative expenses associated with our operations. Our drug candidates are in the early stages of testing, and we or our current and future partners must conduct significant additional clinical trials before we can seek the regulatory approvals necessary to begin commercial sales of our products. We expect to incur losses for at least several more years as we continue development of, and seek regulatory approvals for, our drug candidates and commercialize any approved products. If our drug candidates fail to gain regulatory approval, or if our products do not achieve market acceptance, we will not be profitable, or able to explore other opportunities to enhance shareholder value. If we fail to become and remain profitable, or if we are unable to fund our continuing losses, our shareholders could lose all or part of their investments.

***We will need substantial additional funding, which may not be available or, if it is available, such financing may substantially dilute our existing shareholders.***

The discovery, development, and commercialization of new treatments, such as our PRO 140 product candidate, is costly. As a result, to the extent continued review of our product candidate by us or our partners is promising and we elect to fund the development or commercialization of a product, we will need to raise additional capital, or enter into strategic partnerships, to enable us to:

fund clinical trials and seek regulatory approvals;

build or access manufacturing and commercialization capabilities;

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pay required license fees, milestone payments, and maintenance fees;

develop, test, and market our product candidates;

implement additional internal systems and infrastructure; and

hire and support additional management and scientific personnel.

Until we can generate a sufficient amount of product revenue to finance our cash requirements, which we may never achieve, we expect to finance our cash needs primarily through public or private equity offerings, debt financings or through strategic alliances. We cannot be certain that additional funding will be available on acceptable terms or at all. If we are not able to secure additional funding when needed, we may have to delay, reduce the scope of or eliminate one or more of our clinical trials, collaborative development programs or future commercialization initiatives. In addition, any additional funding that we do obtain will dilute the ownership held by our existing security holders. The amount of this dilution may be substantially increased if the trading price of our common stock is lower at the time of any financing then it is now or was at the time shares were acquired. Any debt financing could involve substantial restrictions on activities and creditors could seek a pledge of some or all of our assets. We have not identified the sources for the additional financing that we will require, and we do not have commitments from any third parties to provide this future financing. If we fail to obtain additional funding as needed, we may be forced to cease or scale back operations, and our results, financial condition and stock price would be adversely affected.

***The amount of financing we require will depend on a number of factors, many of which are beyond our control. Our results of operations, financial condition and stock price are likely to be adversely affected if our funding requirements increase or are otherwise greater than we expect.***

Our future funding requirements will depend on many factors, including, but not limited to:

our stock price, which, if it declines, would serve as a disincentive to holders of the Company s convertible promissory notes, totaling approximately $4.5 million at February 28, 2014, to exercise their conversion rights, thereby prolonging our interest expense burden and increasing the probability that repayment of principal of $0.3 million will be required in fiscal 2014, none in fiscal 2015, and $4.3 million in fiscal 2016;

the costs of clinical trials of PRO 140 and other development activities conducted by us directly, and our ability to successfully conclude the studies and achieve favorable results;

our ability to attract strategic partners to pay for or share costs related to our product development efforts;

the costs and timing of seeking and obtaining regulatory approvals and making related milestone payments due to Progenics Pharmaceuticals, Inc. ( Progenics ), from which we acquired our PRO 140 product candidate, and other third parties;

the costs of filing, prosecuting, maintaining and enforcing patents and other intellectual property rights and defending against potential claims of infringement;

decisions to hire additional scientific or administrative personnel or consultants;

our ability to manage administrative and other costs of our operations; and

the presence or absence of adverse developments in our collaborative research program.

If any of these factors cause our funding needs to be greater than expected, our operations, financial condition, ability to continue operations and stock price may be adversely affected.

***Our future cash requirements may differ significantly from our current estimates.***

Our cash requirements may differ significantly from our estimates from time to time, depending on a number of factors, including:

the ability to maintain and benefit from our Clinical Trial Agreement with Drexel;

the costs and results of clinical trials we are undertaking or may in the future pursue with PRO 140;

the time and costs involved in obtaining regulatory approvals;

whether or not we receive additional cash upon the exercise of our outstanding common stock warrants;

whether or not we are able to obtain funding under future licensing agreements, strategic partnerships, or other collaborative relationships, if any;

the costs of compliance with laws, regulations, or judicial decisions applicable to us; and

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the costs of general and administrative infrastructure required to manage our business and protect corporate assets and shareholder interests.

If we fail to raise additional funds on a timely basis we will need to scale back our business plans or may even be forced to discontinue our operations. Our business, financial condition, and stock price would be negatively affected by any of these outcomes.

***We have significant debt as a result of prior financings, all of which is scheduled to mature at various dates over the next two years. Our substantial indebtedness could adversely affect our business, financial condition and results of operations.***

Our level of debt, which includes convertible promissory notes totaling $4.5 million and other promissory notes in the amount of $0.5 million at February 28, 2014, could have significant consequences for our future operations, including, among others:

making it more difficult for us to meet our other obligations or raise additional capital;

resulting in an event of default, if we fail to comply with our payment obligations;

reducing the availability of any financing proceeds to fund operating expenses, other debt repayment, and working capital requirements; and

limiting our financial flexibility and hindering our ability to obtain additional financing.

Any of the above-listed factors could have a material adverse effect on our business, financial condition, results of operations, and ability to continue as a going concern.

Our ability to make interest and principal payments on our outstanding promissory notes will depend entirely on our ability to raise sufficient funds to satisfy our debt service obligations and our noteholders willingness to convert their notes to common shares, which will likely depend on our stock price from time to time. If noteholders do not elect to convert, it is likely that we will need to borrow or raise additional funds to make required principal and interest payments, as such payments become due and payable, or undertake alternative financing plans, such as refinancing or restructuring our debt, selling additional shares of capital stock, selling assets or reducing or delaying investments in our business. Any inability to obtain additional funds or alternative financing on acceptable terms would likely cause us to be unable to meet our payment obligations, which could have a material adverse effect on our business, financial condition and results of operations and our ability to continue to operate.

***We may be unable to repay the principal amount of outstanding notes at maturity or following a breach of our payment obligations.***

At maturity, the entire outstanding principal and any unpaid interest on our notes will become due and payable by us. Many of our notes can also be accelerated if we fail to make scheduled interest payments. We cannot assure you that we will have sufficient funds or will be able to arrange for necessary financing on acceptable terms to pay these amounts when due. In that case, our failure to repay notes at maturity would constitute an event of default and holders of defaulted notes could seek any available legal remedy.

***The agreement with Progenics pursuant to which we acquired our PRO 140 product candidate, and related license agreements assumed in the PRO 140 acquisition, require us to make significant milestone, royalty, and other payments, which will require additional financing and, in the event we do commercialize our PRO 140 product, decrease the revenues we may ultimately receive on sales.***

Under the Progenics Agreement, we must pay to Progenics and third party licensors significant milestone payments and royalties. For more information, please see the Progenics Agreement, which is attached as Exhibit 10.1 to the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission (the SEC ) on July 30, 2012, and the PDL License Agreement, which is filed as Exhibit 10.21 to our Annual Report on Form 10-K for the fiscal year ended May 31, 2013, filed with the SEC on August 29, 2013. In order to make the various milestone payments that are required, we will need to raise additional funds. In addition, our royalty obligations will reduce the economic benefits to us of any future sales if we do receive regulatory approval and seek to commercialize PRO 140.

***Certain proposed clinical trials of PRO 140 depend on funding from the NIH grants awarded to Drexel and its principal investigator, Dr. Jeffrey M. Jacobson.***

Prior to our acquisition of PRO 140, Progenics and Drexel and its principal investigator, Dr. Jeffrey M. Jacobson, were awarded various grants from the NIH to fund clinical trials of PRO 140, including two grants that remain open. Our ability to benefit commercially from this continued funding, is dependent on Dr. Jacobson s cooperation in structuring the protocols for the NIH-funded clinical trials in a manner that facilitates efforts to maintain PRO 140 s fast track drug candidate designation by the United States Food and Drug Administration ( FDA ) and obtain regulatory approval of commercially viable uses of PRO 140 in HIV-infected patients. We believe these clinical trials will constitute a Phase IIb study of PRO 140, but there can be no assurance that will be the

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case. If study protocols are not designed in a manner that provides commercial and regulatory benefits for us or if NIH funding is not awarded, withdrawn, or proves insufficient, we will need significant additional financing to continue to self-fund our trials, including our treatment substitution clinical trial and our expected costs and time to completion would increase significantly, which could have a material adverse effect on our results of operations and financial condition.

***Clinical trials are expensive, time-consuming and subject to delay.***

Clinical trials are subject to rigorous regulatory requirements and are expensive and time-consuming to design and implement. The length of time and number of trial sites and patients required for clinical trials vary substantially based on the type, complexity, novelty, intended use and any safety concerns relating to a drug candidate. We estimate that the clinical trials of our current drug candidate, PRO 140, and any other drug candidates we decide to pursue will require several years to complete. Specifically, we estimate that it will take at least three years to complete the necessary clinical trials, obtain regulatory approval from the FDA or other non-U.S. regulatory agency, and begin to commercialize PRO 140. Clinical trials for our other drug candidates, including Cytolin, may take significantly longer to complete, if they are pursued at all.

The commencement and completion of clinical trials conducted by Drexel or which we are undertaking ourselves could be delayed or prevented by many factors, including, but not limited to:

- our ability to obtain regulatory or other approvals to commence and conduct clinical trials in the manner we or our partners consider appropriate for timely development;
- our ability to identify and reach agreement on acceptable terms with prospective clinical trial sites and entities involved in the conduct of our clinical trials;
- slower than expected rates of patient recruitment and enrollment, including as a result of competition with other clinical trials for patients, limited numbers of patients that meet the enrollment criteria, or the introduction of alternative therapies or drugs by others;
- delays in paying third-party vendors of biopharmaceutical services;
- lack of effectiveness of our drug candidates during clinical trials;
- unforeseen safety issues; or
- inadequate supply of clinical trial materials.

***Testing of our primary product candidate, PRO 140, is in early stages and our clinical trial results may not ultimately confirm initial positive indications, which would materially and adversely affect our business, financial condition and stock price.***

Our efforts to commercialize PRO 140 are dependent on obtaining FDA or other non-U.S. regulatory agency approval of its use in HIV-infected patients. Although early test results are positive, the process of obtaining approval of a drug product for use in humans is extremely lengthy and time-consuming, and numerous factors may prevent our successful development of PRO 140, including negative results in future clinical trials, the development by competitors of other products with equal or better results, or inability to obtain sufficient additional funding to continue to pursue development. In addition, although PRO 140 has not demonstrated significant immunogenic response in trials conducted to date, these trials have been quite short (up to three weeks) and further trials are needed to determine whether the length of time until development of immunogenic response in humans is long enough for PRO 140 to be a viable treatment regimen. Failure to successfully develop PRO 140 would have a material and adverse effect on our business, financial condition and stock price, and would threaten our ability to continue to operate our business, particularly since PRO 140 is the only product candidate we are actively pursuing at this time.

***Although PRO 140 has been designated as a candidate for fast track approval by the FDA, our ability to obtain accelerated approval may be lost.***

The FDA designated PRO 140 as a candidate for fast track consideration in 2006. The letter ascribing this designation stated that, if the clinical development program pursued for PRO 140 did not continue to meet the criteria for fast track designation, the Investigational New Drug ( IND ) application would not be reviewed under the fast track program. There is no assurance that the FDA will ultimately consider PRO 140 for approval on an accelerated basis. Any failure to maintain eligibility for fast track review will likely result in requirements for longer or additional clinical trials and a slower approval process, resulting in additional costs and further delay in the potential realization of revenues from commercialization of PRO 140.

***Any failure to attract and retain skilled directors, executives, employees and consultants could impair our drug development and commercialization activities.***

Our business depends on the skills, performance, and dedication of our directors, executive officers and key scientific and technical advisors. All of our current scientific advisors are independent contractors and are either self-employed or employed by

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other organizations. As a result, they may have conflicts of interest or other commitments, such as consulting or advisory contracts with other organizations, which may affect their ability to provide services to us in a timely manner. We may need to recruit additional directors, executive management employees, and advisors, particularly scientific and technical personnel, which will require additional financial resources. In addition, there is currently intense competition for skilled directors, executives and employees with relevant scientific and technical expertise, and this competition is likely to continue. If we are unable to attract and retain persons with sufficient scientific, technical and managerial experience, we may be forced to limit or delay our product development activities or may experience difficulties in successfully conducting our business, which would adversely affect our operations and financial condition.

***We do not have internal research and development personnel, making us dependent on consulting relationships and strategic alliances with industry partners.***

We currently have no research and development staff or coordinators. We rely and intend to continue to rely on third parties for many of these functions. For example, our chief medical officer is employed by NDA Partners, an outside consultant assisting us with preparations for our clinical trials. We also recently engaged Amarex Clinical Research, LLC ( Amarex ) to act as our clinical research organization for our treatment substitution clinical trial. As a result, we will be dependent on consultants and strategic partners in our development and commercialization activities, and it may be administratively challenging to monitor and coordinate these relationships. If we are unable to successfully manage our relationships with third parties, we may not be able to successfully manage development, testing, and approval of our PRO 140 drug candidate or other products or commercialize any products that are approved.

***We will need to outsource and rely on third parties for the clinical development and manufacture, sales and marketing of product candidates, and our future success will be dependent on the timeliness and effectiveness of the efforts of these third parties.***

We are dependent on third parties, such as Drexel, for important aspects of our product development strategy. We do not have the required financial and human resources to carry out independently the pre-clinical and clinical development for our product candidate, and do not have the capability or resources to manufacture, market or sell our current product candidates. As a result, we contract with and rely on third parties for important functions, including testing, storing, and manufacturing our products and managing and conducting clinical trials from which we may obtain a benefit. We have recently entered into several agreements with third parties for such services. If problems develop in our relationships with third parties, or if such parties fail to perform as expected, it could lead to delays or lack of progress, significant cost increases, changes in our strategies, and even failure of our product initiatives.

***We may not be able to identify, negotiate and maintain the strategic alliances necessary to develop and commercialize our products and technologies, and we will be dependent on our corporate partners if we do.***

We may seek to enter into a strategic alliance with a pharmaceutical company for the further development and approval of one or more of our product candidates. Strategic alliances may provide us with additional funds, expertise, access, and other resources in exchange for exclusive or non-exclusive licenses or other rights to the technologies and products that we are currently developing or may explore in the future. We cannot give any assurance that we will be able to enter into additional strategic relationships with a pharmaceutical company or others in the near future or at all, or maintain our current relationships. In addition, we cannot assure you that any agreements we do reach will achieve our goals or be on terms that prove to be economically beneficial to us. When we do enter into strategic or contractual relationships, we become dependent on the successful performance of our partners or counter-parties. If they fail to perform as expected, such failure could adversely affect our financial condition, lead to increases in our capital needs, or hinder or delay our development efforts.

***Clinical trials may fail to demonstrate the desired safety and efficacy of our drug candidates, which could prevent or significantly delay completion of clinical development and regulatory approval.***

Prior to receiving approval to commercialize PRO 140 or any other drug candidates, we must adequately demonstrate to the FDA and any non-U.S. regulatory authorities in jurisdictions in which we seek approval that it or any other product candidate is sufficiently safe and effective with substantial evidence from well-controlled clinical trials. In clinical trials, we will need to demonstrate efficacy for the treatment of specific indications and monitor safety throughout the clinical development process and following approval. If clinical work by us or others leads to undesirable adverse effects in patients, it could delay or prevent us from furthering the regulatory approval process or cause us to cease clinical trials with respect to any drug candidate. If our current or future preclinical studies or clinical trials are unsuccessful, our business will be significantly harmed and our stock price would be negatively affected.

Our drug candidates are subject to the risks of failure inherent in drug-related product development. Preclinical studies may not yield results that adequately support our regulatory applications. Even if these applications are filed with respect to our drug

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candidates, the results of preclinical studies do not necessarily predict the results of clinical trials. In addition, even if we believe the data collected from clinical trials of our drug candidates are promising, these data may not be sufficient to support approval by the FDA or non-U.S. regulatory authorities. If regulatory authorities do not approve our products or if we fail to maintain regulatory compliance, we would be unable to commercialize our products, and our business, results of operations and financial condition would be harmed.

***Our competitors may develop drugs that are more effective, safer and less expensive than ours.***

We are engaged in the HIV treatment sector of the biopharmaceutical industry, which is intensely competitive and changes rapidly. There are current treatments that are quite effective at controlling the effects of HIV, and we expect that new developments by other companies and academic institutions in the areas of HIV treatment will continue. If approved for marketing by the FDA, depending on the approved clinical indication, our drug candidates may be competing with existing and future antiviral treatments for HIV.

Our competitors may:

- develop drug candidates and market drugs that increase the levels of safety or efficacy that our drug candidates will need to show in order to obtain regulatory approval;
- develop drug candidates and market drugs that are less expensive or more effective than our drugs;
- commercialize competing drugs before we or our partners can launch any products developed from our drug candidates;
- hold or obtain proprietary rights that could prevent us from commercializing our products; or
- introduce therapies or market drugs that render our potential drugs obsolete.

We will compete against large pharmaceutical and biotechnology companies and smaller companies that are collaborating with larger pharmaceutical companies, new companies, academic institutions, government agencies and other public and private research organizations. These competitors in nearly all cases operate research and development programs that have substantially greater financial resources than we do. Our competitors also have significantly greater experience in:

- developing drug candidates;
- undertaking preclinical testing and clinical trials;
- building relationships with key customers and opinion-leading physicians;

obtaining and maintaining FDA and other regulatory approvals;

formulating and manufacturing drugs;

launching, marketing and selling drugs; and

providing management oversight for all of the above-listed operational functions.

If we fail to achieve technical superiority over other treatments, we may be unable to obtain regulatory approval. If our competitors market drugs that are less expensive, safer or more effective than our potential drugs, or that gain or maintain greater market acceptance, we may not be able to compete effectively.

***We expect to rely on third party manufacturers and will be dependent on their quality and effectiveness.***

Our primary product candidate and potential drug candidates require precise, high-quality manufacturing. The failure to achieve and maintain high manufacturing standards, including failure to detect or control anticipated or unanticipated manufacturing errors or the frequent occurrence of such errors, could result in patient injury or death, discontinuance or delay of ongoing or planned clinical trials, delays or failures in product testing or delivery, cost overruns, product recalls or withdrawals and other problems that could seriously hurt our business. Contract drug manufacturers often encounter difficulties involving production yields, quality control and quality assurance and shortages of qualified personnel. These manufacturers are subject to stringent regulatory requirements, including the FDA s current good-manufacturing-practices regulations and similar foreign laws and standards. If our contract manufacturers fail to maintain ongoing compliance at any time, the production of our drug candidates could be interrupted, resulting in delays or discontinuance of our clinical trials, additional costs and loss of potential revenues.

***We may not be able to successfully scale-up manufacturing of our drug candidates in sufficient quality and quantity, which would delay or prevent us from developing our drug candidates and commercializing approved drugs, if any.***

To date, our drug candidates have been manufactured in small quantities for preclinical studies and early-stage clinical trials. In order to conduct larger-scale or late-stage clinical trials and for commercialization of any resulting drug, if that drug candidate is

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approved for sale, we will need to manufacture it in larger quantities. We may not be able to successfully increase the manufacturing capacity for any of our drug candidates in a timely or cost-effective manner, or at all. In addition, quality issues may arise during scale-up activities. If we are unable to successfully scale up the manufacture of our drug candidates in sufficient quality and quantity, the development and testing of that drug candidate and regulatory approval or commercial launch of any resulting drug may be delayed, which could significantly harm our business.

***There is uncertainty relating to our drug candidate Cytolin, and our business may be adversely affected if it later proves not to have the novel and beneficial characteristics we currently believe it to possess.***

Until late 2012, the primary focus of our business was on the development of Cytolin, a monoclonal antibody that has, what we believe, are novel mechanisms of action directed against the replication of HIV. We do not understand all of the biomechanical mechanisms of Cytolin and we are not actively pursuing its development and review at this time. If we cannot determine how Cytolin acts to reduce the viral load of HIV infection, we may not seek or be able to obtain regulatory approval of its use in human patients.

***We may be subject to potential product liability and other claims that could materially impact our business and financial condition.***

The development and sale of medical products exposes us to the risk of significant damages from product liability and other claims. The use of our drug candidates in clinical trials may result in adverse effects. We cannot predict all the possible harms or adverse effects that may result. We do not maintain product liability insurance, but plan to obtain product liability insurance, if required, prior to the commencement of further clinical trials of PRO 140. We may not have sufficient resources to pay for any liabilities resulting from a personal injury or other claim, even if we do later become insured. In addition to the possibility of direct claims, we may be required to indemnify third parties against damages and other liabilities arising out of our development, commercialization and other business activities, which would increase our liability exposure. If third parties that have agreed to indemnify us fail to do so, we may be held responsible for those damages and other liabilities as well.

***Legislative, regulatory, or medical cost reimbursement changes may adversely impact our business.***

New laws, regulations and judicial decisions, or new interpretations of existing laws, regulations and decisions, that relate to the health care system in the U.S. and in other jurisdictions may change the nature of and regulatory requirements relating to drug discovery, clinical testing and regulatory approvals, limit or eliminate payments for medical procedures and treatments, or subject the pricing of pharmaceuticals to government control. Outside the U.S., and particularly in the European Union, the pricing of prescription pharmaceuticals is subject to governmental control. In addition, third-party payers in the U.S. are increasingly attempting to contain health care costs by limiting both coverage and the level of reimbursement of new drug products. Consequently, significant uncertainty exists as to the reimbursement status of newly approved health care products. Significant changes in the health care system in the U.S. or elsewhere, including changes resulting from adverse trends in third-party reimbursement programs, could have a material adverse effect on our projected future operating results and our ability to raise capital, commercialize products, and remain in business.

***If we are unable to effectively implement or maintain a system of internal control over financial reporting, we may not be able to accurately or timely report our financial results and our stock price could be adversely affected.***

Section 404 of the Sarbanes-Oxley Act of 2002 and related regulations require us to evaluate the effectiveness of our internal control over financial reporting as of the end of each fiscal year, and to include a management report assessing the effectiveness of our internal control over financial reporting in our Annual Report on Form 10-K for that fiscal

year. Management determined that as of both May 31, 2012, and May 31, 2013, our disclosure controls and procedures and internal control over financial reporting were not effective due to material weaknesses in our internal control over financial reporting related to inadequate segregation of duties over authorization, review and recording of transactions as well as the financial reporting of such transactions. Any failure to implement new or improved controls necessary to remedy the material weaknesses described above, or difficulties encountered in the implementation or operation of these controls, could harm our operations, decrease the reliability of our financial reporting, and cause us to fail to meet our financial reporting obligations, which could adversely affect our business and reduce our stock price.

***Our success depends substantially upon our ability to obtain and maintain intellectual property protection relating to our product candidates and research technologies.***

Due to evolving legal standards relating to the patentability, validity and enforceability of patents covering pharmaceutical inventions and the claim scope of patents, our ability to enforce our existing patents and to obtain and enforce patents that may issue from any pending or future patent applications is uncertain and involves complex legal, scientific and factual questions. To date, no consistent policy has emerged regarding the breadth of claims allowed in biotechnology and pharmaceutical patents. Thus, we cannot be sure that any patents will issue from any pending or future patent applications owned by or licensed to us. Even if patents do issue, we cannot be sure that the claims of these patents will be held valid or enforceable by a court of law, will provide us with any

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significant protection against competing products, or will afford us a commercial advantage over competitive products. If one or more products resulting from our product candidates is approved for sale by the FDA and we do not have adequate intellectual property protection for those products, competitors could duplicate them for approval and sale in the U.S. without repeating the extensive testing required of us or our partners to obtain FDA approval.

***Known third party patent rights could delay or otherwise adversely affect our planned development and sale of PRO 140. We have identified but not exhaustively analyzed other patents that could relate to our proposed products.***

We are aware of patent rights held by a third party that may cover certain compositions within our PRO 140 drug candidate. The patent holder has the right to prevent others from making, using, or selling a drug that incorporates the patented compositions, while the patent remains in force. We believe that the third party s patent rights will not affect our planned development, regulatory clearance, and eventual marketing, commercial production, and sale of PRO 140. The relevant patent expires before we expect to commercially introduce that drug candidate. In addition, the Hatch-Waxman exemption to U.S. patent law permits all uses of compounds in clinical trials and for other purposes reasonably related to obtaining FDA clearance of drugs that will be sold only after patent expiration, so our use of PRO 140 in those FDA-related activities does not infringe the patent holder s rights. However, were the patent holder to assert its rights against us before expiration of the patent for activities unrelated to FDA clearance, the development and ultimate sale of a PRO 140 product could be significantly delayed, and we could incur the expense of defending a patent infringement suit and potential liability for damages for periods prior to the patent s expiration.

In connection with our acquisition of rights to PRO 140, our patent counsel conducted a freedom-to-operate search that identified other patents that could relate to our proposed PRO 140 drug candidate. Sufficient research and analysis was conducted to enable us to reach the conclusion that PRO 140 likely does not infringe those patent rights. However, we did not have an exhaustive analysis conducted as to the identified patent rights, because doing so would have been more costly than appeared to be justified. If any of the holders of the identified patents were to assert patent rights against us, the development and sale of PRO 140 could be delayed, we could be required to spend time and money defending patent litigation, and we could incur liability for infringement or be enjoined from producing our products if the patent holders prevailed in an infringement suit.

***If we are sued for infringing on third-party intellectual property rights, it will be costly and time-consuming, and an unfavorable outcome would have a significant adverse effect on our business.***

Our ability to commercialize our product candidates depends on our ability to use, manufacture and sell those products without infringing the patents or other proprietary rights of third parties. Numerous U.S. and foreign issued patents and pending patent applications owned by third parties exist in the monoclonal antibody therapeutic area in which we are developing drug candidates and seeking new potential drug candidates. There may be existing patents, unknown to us, on which our activities with our drug candidates could infringe.

If a third party claims that our actions infringe on its patents or other proprietary rights, we could face a number of issues that could seriously harm our competitive position, including, but not limited to:

- infringement and other intellectual property claims that, even if meritless, can be costly and time-consuming, delay the regulatory approval process and divert management s attention from our core business operations;

substantial damages for infringement, if a court determines that our drugs or technologies infringe a third party s patent or other proprietary rights;

a court prohibiting us from selling or licensing our products or technologies unless the holder licenses the patent or other proprietary rights to us, which it is not required to do; and

even if a license is available from a holder, we may have to pay substantial royalties or grant cross-licenses to our patents or other proprietary rights.

If any of these events occur, it could significantly harm our operations and financial condition and negatively affect our stock price.

***We may undertake infringement or other legal proceedings against third parties, causing us to spend substantial resources on litigation and exposing our own intellectual property portfolio to challenge.***

We may come to believe that third parties are infringing on our patents or other proprietary rights. To prevent infringement or unauthorized use, we may need to file infringement and/or misappropriation suits, which are very expensive and time-consuming and would distract management s attention. Also, in an infringement or misappropriation proceeding a court may decide that one or more of our patents is invalid, unenforceable, or both, in which case third parties may be able to use our technology without paying license fees or royalties. Even if the validity of our patents is upheld, a court may refuse to stop the other party from using the technology at issue on the ground that the other party s activities are not covered by our patents.

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***We may become involved in disputes with our present or future contract partners over intellectual property ownership or other matters, which would have a significant effect on our business.***

Inventions discovered in the course of performance of contracts with third parties may become jointly owned by our strategic partners and us, in some cases, and the exclusive property of one of us, in other cases. Under some circumstances, it may be difficult to determine who owns a particular invention or whether it is jointly owned, and disputes could arise regarding ownership or use of those inventions. Other disputes may also arise relating to the performance or alleged breach of our agreements with third parties. Any disputes could be costly and time-consuming, and an unfavorable outcome could have a significant adverse effect on our business.

***We are subject to the oversight of the SEC and other regulatory agencies. Investigations by those agencies could divert management s focus and could have a material adverse effect on our reputation and financial condition.***

We are subject to the regulation and oversight of the SEC and state regulatory agencies, in addition to the FDA. As a result, we may face legal or administrative proceedings by these agencies. We are unable to predict the effect of any investigations on our business, financial condition or reputation. In addition, publicity surrounding any investigation, even if ultimately resolved in our favor, could have a material adverse effect on our business.

***Our auditors have issued a going concern opinion, and we will not be able to achieve our objectives and will have to cease operations if we cannot adequately fund our operations.***

Our auditors issued a going concern opinion in connection with the audit of our annual financial statements for the fiscal year ended May 31, 2013. A going concern opinion means that there is doubt that the company can continue as an ongoing business for the next 12 months. There is no assurance that we will be able to adequately fund our operations in the future.

**Risks Relating to Our Common Stock**

***The significant number of common shares issuable upon conversion of outstanding notes and exercise of outstanding warrants could adversely affect the trading price of our common shares.***

Conversion of outstanding notes into common shares and the sale of such shares into the trading market of common shares or exercise of our warrants and sale of the underlying common stock could depress the market price of our shares.

***The market price for our common shares has been and is likely to continue to be volatile.***

The market price for our common shares has been and is likely to continue to be volatile. The volatile nature of our common share price may cause investment losses for our shareholders. The market price of stock in a development stage biotech company may often be driven by investor sentiment, expectation and perception, all of which are independent of fundamental valuation metrics or traditional financial performance metrics, thereby exacerbating volatility. In addition, our common shares are quoted on the OTCQB of the OTC Markets marketplace, which may increase price quotation volatility and could limit liquidity, all of which may adversely affect the market price of our shares.

***You may experience dilution of your ownership because of the future issuance of additional common shares or other securities.***

We may conduct sales of our securities at prices per share below the current market price for our common stock, resulting in dilution to shareholders at the time. Sales of substantial amounts of shares in the public market, or the perception that such sales could occur, may adversely affect the prevailing market price of our common stock and make it more difficult for us to raise additional capital.

***We do not expect any cash dividends to be paid on our shares in the foreseeable future.***

We have never declared or paid a cash dividend and we do not anticipate declaring or paying dividends for the foreseeable future. We expect to use future financing proceeds and earnings, if any, to fund operating expenses. Consequently, shareholders only opportunity to achieve a return on their investment is if the price of our stock appreciates and they sell their shares at a profit. We cannot assure shareholders of a positive return on their investment when they sell their shares or that shareholders will not lose the entire amount of their investment.

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***If the beneficial ownership of our stock continues to be highly concentrated, it may prevent you and other shareholders from influencing significant corporate decisions.***

Our significant shareholders may exercise substantial influence over the outcome of corporate actions requiring shareholder approval, including the election of directors, any merger, consolidation or sale of all or substantially all of our assets, or any other significant corporate transactions. These shareholders may also vote against a change of control, even if such a change of control would benefit our other shareholders.

***Our common shares are classified as penny stock and trading of our shares may be restricted by the SEC s penny stock regulations.***

Rules 15g-1 through 15g-9 promulgated under the Securities Exchange Act of 1934 (the Exchange Act ) impose sales practice and disclosure requirements on certain brokers-dealers who engage in transactions involving a penny stock. The SEC has adopted regulations which generally define penny stock to be any equity security that has a market price of less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exceptions. Our common shares are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and accredited investors. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer s account. In addition, the penny stock rules require that, prior to a transaction in a penny stock that is not otherwise exempt, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser s written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules may discourage investor interest in and limit the marketability of our common shares.

***We may continue to have potential liability with respect to the rights of some shareholders to rescind their investment in our securities.***

In March 2011, we disclosed that certain of our shares sold between 2008 and the date of disclosure may have been sold in violation of the United States federal and state securities laws and those of certain foreign jurisdictions. For further information on the sale of securities in violation of applicable securities laws, please see Note 3 to our Consolidated Financial Statements included in this Form 10-Q. Management s analysis, based upon various statutes of limitations, among other issues, indicates that the Company s estimated rescission liability as of February 28, 2014, has declined to a total of $378,000. Since the issue of potential rescission liability was first disclosed by the Company in early 2011, no investor has asserted rescission rights.

***Future sales of our securities could adversely affect the market price of our common stock and our future capital-raising activities could involve the issuance of equity securities, which would dilute your investment and could result in a decline in the trading price of our common stock.***

We may sell securities in the public or private equity markets if and when conditions are favorable, even if we do not have an immediate need for additional capital at that time. Sales of substantial amounts of shares of our common stock, or the perception that such sales could occur, could adversely affect the prevailing market price of our shares

and our ability to raise capital. We may issue additional shares of common stock in future financing transactions or as incentive compensation for our executive management and other key personnel, consultants and advisors. Issuing any equity securities would be dilutive to the equity interests represented by our then-outstanding shares of common stock.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

The Company issued 157,154 shares of common stock upon the conversion of a Bridge Note in the principal amount of $100,000 plus accrued interest, effective January 3, 2014.

On January 15, 2014, the Company issued a warrant to purchase 50,000 shares of common stock at a purchase price of $.75 per share and with a term expiring November 1, 2016 in settlement of a claim for telecommunications services provided to the Company in the fall of 2012.

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The Company relied on the exemption provided by Section 4(a)(2) of the Securities Act of 1933 in connection with the above described note conversion and warrant issuance.

**Item 3. Defaults Upon Senior Securities.**
None.

**Item 4. Mine Safety Disclosures.**
Not Applicable.

**Item 5. Other Information.**
None.

**Item 6. Exhibits.**
(a) Exhibits:

| | |
|---|---|
| 10.1 | Clinical Trial Agreement dated February 7, 2014, between CytoDyn Inc. and Philadelphia Health & Education Corporation dba Drexel University College of Medicine ( Drexel ). |
| 10.2 | Amendment to Clinical Research Collaboration Agreement dated February 7, 2014, between CytoDyn Inc. and Drexel. |
| 31.1 | Rule 13a-14(a) Certification by CEO of the Registrant. |
| 31.2 | Rule 13a-14(a) Certification by CFO of the Registrant. |
| 32.1 | Certification of CEO of the Registrant pursuant to 18 U.S.C. Section 1350. |
| 32.2 | Certification of CFO of the Registrant pursuant to 18 U.S.C. Section 1350. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CYTODYN INC.
(Registrant)

Dated: April 11, 2014

/s/ Nader Z. Pourhassan
Nader Z. Pourhassan
President and Chief Executive Officer

Dated: April 11, 2014

/s/ Michael D. Mulholland
Michael D. Mulholland
Chief Financial Officer, Treasurer and
Corporate Secretary

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EXHIBIT INDEX

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